

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SAJ-01 SSO-00 NSCE-00 USIE-00 INRE-00
CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03 NSAE-00 NSC-05
PA-01 PRS-01 SP-02 SS-15 AID-05 COME-00 EB-07 FRB-03
TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01
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FM AMEMBASSY LISBON

TO SECSTATE WASHDC IMMEDIATE 9452

S E C R E T LISBON 8446

E.O. 11652: GDS

TAGS: EAID, PO, EFIN

SUBJ: FINANCIAL ASSISTANCE PROGRAM FOR PORTUGAL

REF: A) LISBON 7920, (B) LISBON 8016

1. ECON COUNSELOR TODAY, DECEMBER 7, DISCUSSED PORTUGAL'S EFFORTS TO OBTAIN PRIVATE BANK CONSORTIUM CREDIT OF \$300 MILLION WITH A REPRESENTATIVE OF ONE OF THE CONSORTIUM LEADERS. LEADER STATED THAT HIS BANK'S CONSULTATIONS WITH OTHER FINANCIAL INSTITUTIONS HAVE NOT PROCEEDED AS SMOOTHLY AS HAD BEEN ANTICIPATED. CONTINENTAL ILLINOIS, BANKERS TRUST AND CHASE HAVE REFUSED PARTICIPATION IN THE CONSORTIUM. OF THE BRITISH BANKS CONSULTED, WESTMINSTER HAS REFUSED PARTICIPATION WHILE BARCLAY'S AGREED TO CONTRIBUTE \$30 MILLION IF INTEREST RATE QUESTION IS REOPENED. SWISS BANKS HAVE GIVEN INCONCLUSIVE, BUT GENERALLY NEGATIVE, RESPONSES. ANSWERS ARE STILL PENDING FROM GERMAN AND FRENCH BANKS. IT CURRENTLY APPEARS CONSORTIUM WILL NOT BE ABLE TO ACHIEVE \$300 MILLION TARGET. PORTUGAL MAY HAVE TO ACCEPT SMALLER AMOUNT, PERHAPS IN THE NEIGHBORHOOD OF \$200 MILLION. APPEARS LIKELY, MOREOVER, THAT INTEREST RATE WILL HAVE TO BE INCREASED FROM INITIAL PORTUGUESE OFFER OF 1.5 PERCENT ABOVE LIBO. FURTHERMORE, LOAN MAY NOT BE AVAILABLE FOR DRAW-DOWN AS EARLY AS ANTICIPATED.

2. COMMENT: INFORMATION RELAYED IN ABOVE DISCUSSION

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ADDS TO PROBLEMS GOP WILL FACE WITH GOLD SWAP.

IF PORTUGAL SELLS GOLD, WHETHER U.S. OR
PORTUGUESE, PRIVATE BANKS WILL UNDOUBTEDLY BECOME
MORE RELUCTANT TO EXTEND MEDIUM-TERM CREDITS. IN FACT,
THEY MAY FULFILL THEIR THREAT NOT TO EXTEND SUCH CREDIT
UNTIL PORTUGAL HAS CONCLUDED NEGOTIATIONS FOR PROPOSED
GOVERNMENT CONSORTIUM CREDIT OF \$1.5 BILLION. SHOULD
GOVERNMENT CONSORTIUM CREDIT BE DELAYED FOR ANY REASON,
ESF BRIDGING LOAN MAY NOT PROVIDE SUFFICIENT LIQUIDITY
TO COVER THE GAP. PORTUGAL WOULD THEN BE OBLIGED TO
SELL ADDITIONAL GOLD. SUCH FURTHER SALES MIGHT POSTPONE
INDEFINITELY ANY POSSIBILITY OF CONCLUDING PRIVATE
BANK CREDIT.
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